

LD 1: FIRST-YEAR IMPACT ON TAX BURDEN

Prepared for:
Joint Standing Committee on Taxation
January 31, 2006

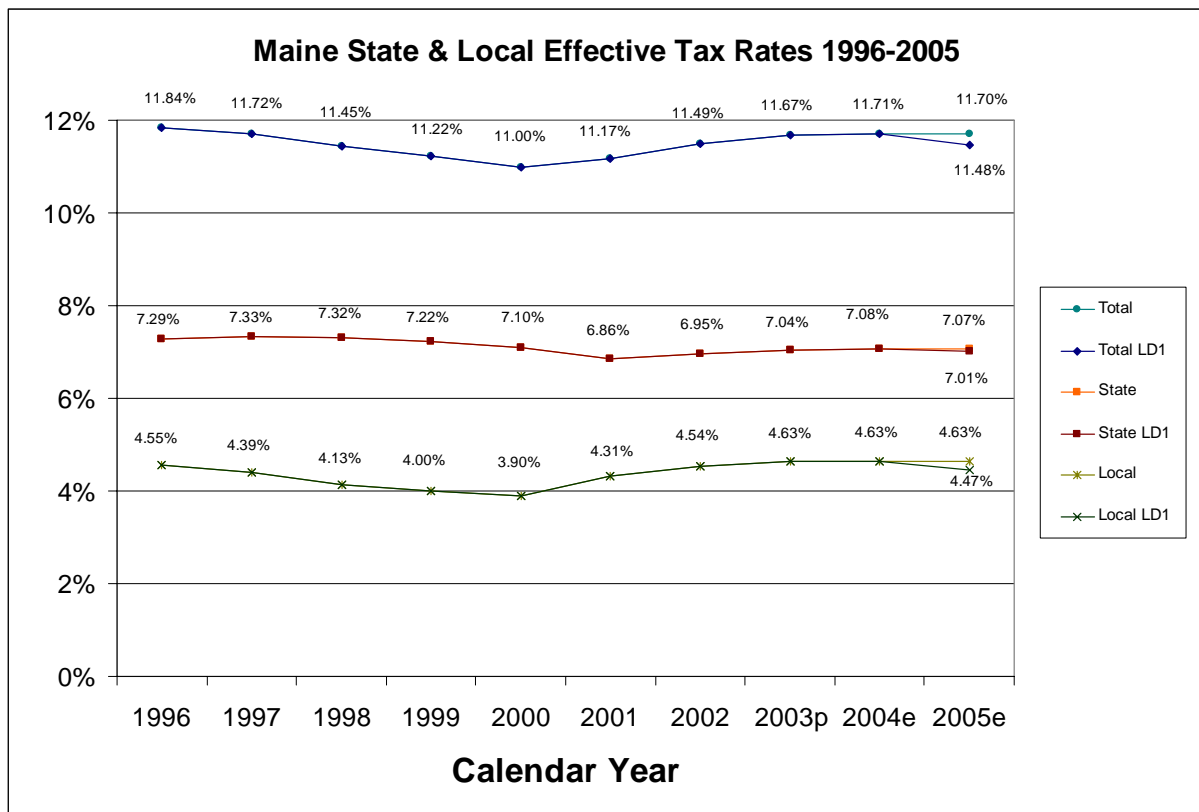
Prepared by:
Maine Revenue Services

ANALYSIS HIGHLIGHTS

1. The estimated state and local tax burden on Maine residents declined in 2005 for the first time since calendar year 2000. The biggest contributor to the decline was a reduction in the local tax burden on Maine residents.
2. Property tax commitments grew much slower this year than in past years.
3. The passage of LD 1 was the most significant property tax event that coincided with the slowdown.
4. Slower property tax growth and expanded property tax relief programs saved Maine resident homeowners \$65 million and Maine businesses \$10 million.
5. Maine homeowners at all income levels saved money. Low-income homeowners experienced the greatest percentage property tax burden reduction.
6. An analysis of typical Maine households demonstrates how each of the components of LD 1 reduced the net property tax paid by taxpayers residing in an average municipality. “Average municipality” means one that experienced an average decrease in property tax on Maine residents in property tax year 2005.

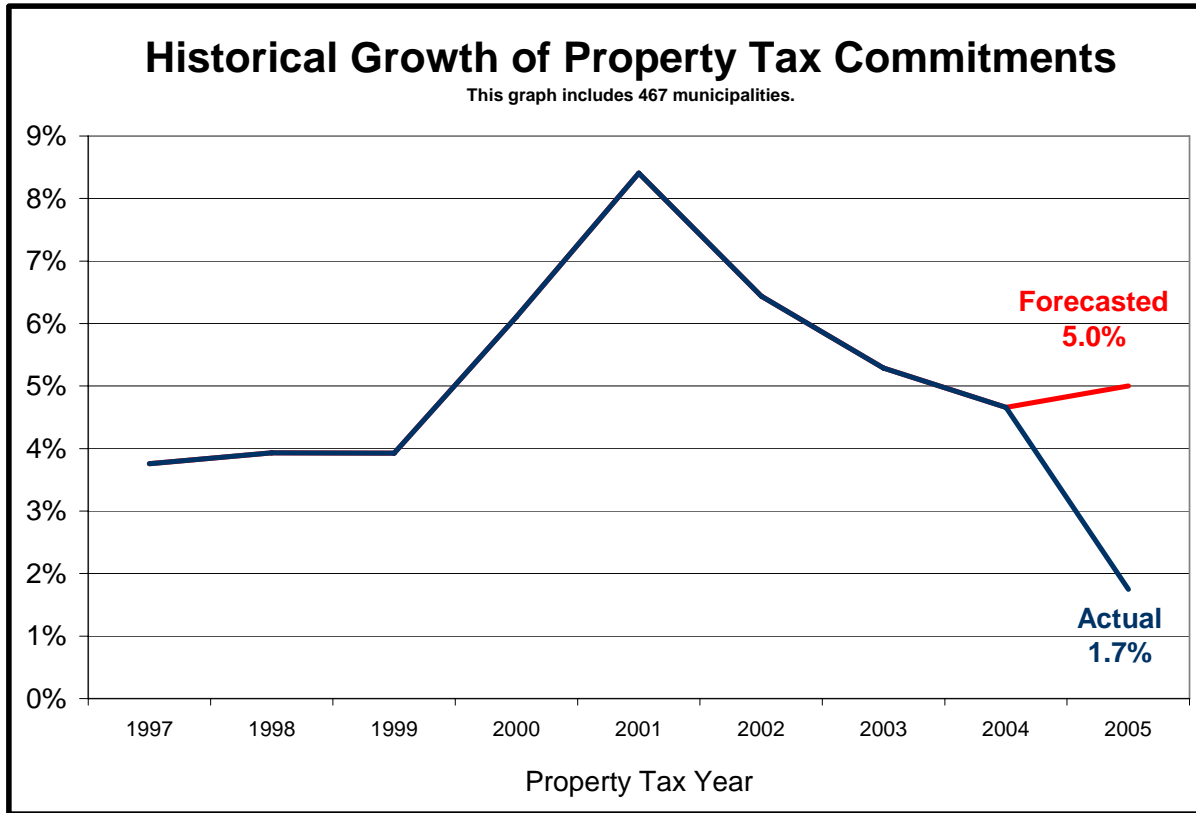
1. The estimated state and local tax burden on Maine residents declined in 2005 for the first time since calendar year 2000. The biggest contributor to the decline was a reduction in the local tax burden on Maine residents.

Maine Revenue Services estimates that the state and local tax burden on Maine residents fell from 11.84% in calendar year 1996 to 11% in 2000. Starting in calendar year 2001 the state and local tax burden on Maine residents began to increase on an annual basis as local property taxes increased at a higher rate than resident incomes. An analysis of the first year impacts of LD 1 indicates that the local property tax burden on resident families fell in calendar year 2005 as the percentage increase in local property taxes grew by much less than projected income. This reduction in the local property tax burden should continue as state funding for K-12 education continues to increase and more municipalities become subject to municipal and school spending caps. The state level tax burden also fell as a result of expansions in the Homestead Exemption and the Maine Resident Property Tax Program (i.e., “Circuit Breaker” program).



2. Property tax commitments grew much slower this year than in past years.

The graph below shows the rate of growth of property tax commitments in Maine for the past nine years. Based on past growth rates, Maine Revenue Services forecasted that property tax commitments would increase 5.0% this year. Instead, they increased by just 1.7%.



This finding is based on information from 467 municipalities that submitted Municipal Valuation Returns by January 13, 2006. Note: A municipality's property tax "commitment" is the amount of property tax revenue that its legislative body approves to collect through property taxes.

Property Tax Year	Rate of Growth
1997	3.8%
1998	3.9%
1999	3.9%
2000	6.1%
2001	8.4%
2002	6.4%
2003	5.3%
2004	4.7%
2005 Forecasted	5.0%
2005 Actual	1.7%

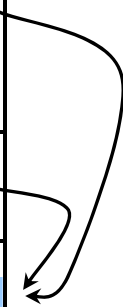
3. The passage of LD 1 was the most significant property tax event that coincided with the slowdown.

LD 1 is the most significant change in property tax policy that has occurred in Maine over the last year. LD 1 increased State funding for local K-12 education by \$99 million and established limits for the growth of municipal property taxes and county assessments. This year's significant decrease in property tax growth corresponds to the passage of LD 1.

4. Slower property tax growth and expanded property tax relief programs saved Maine resident homeowners \$65 million and Maine businesses \$10 million.

The table below shows the combined effect of slower property tax growth, the expanded Homestead Exemption, and increased funding for the Maine Residents Property Tax and Rent Relief Program (i.e., "Circuit Breaker").

(Millions)		2005 Forecasted	2005 Actual	Difference
1.	Property Tax Liability	\$1,785.1	\$1,729.8	-\$55.3
2.	Business Savings	\$472.0	\$461.9	-\$10.1
3.	Residential Savings	\$1,313.1	\$1,268.0	-\$45.1
4.	Maine Residents	\$997.8	\$947.4	-\$50.4
5.	Other Residential	\$287.6	\$289.7	+\$2.0
6.	State Payment	\$27.7	\$30.9	+\$3.2
7.	Circuit Breaker	-\$22.0	-\$36.2	-\$14.2
8.	Total Savings for Maine Resident Homeowners (Reduced Liability plus Circuit Breaker)			-\$64.6

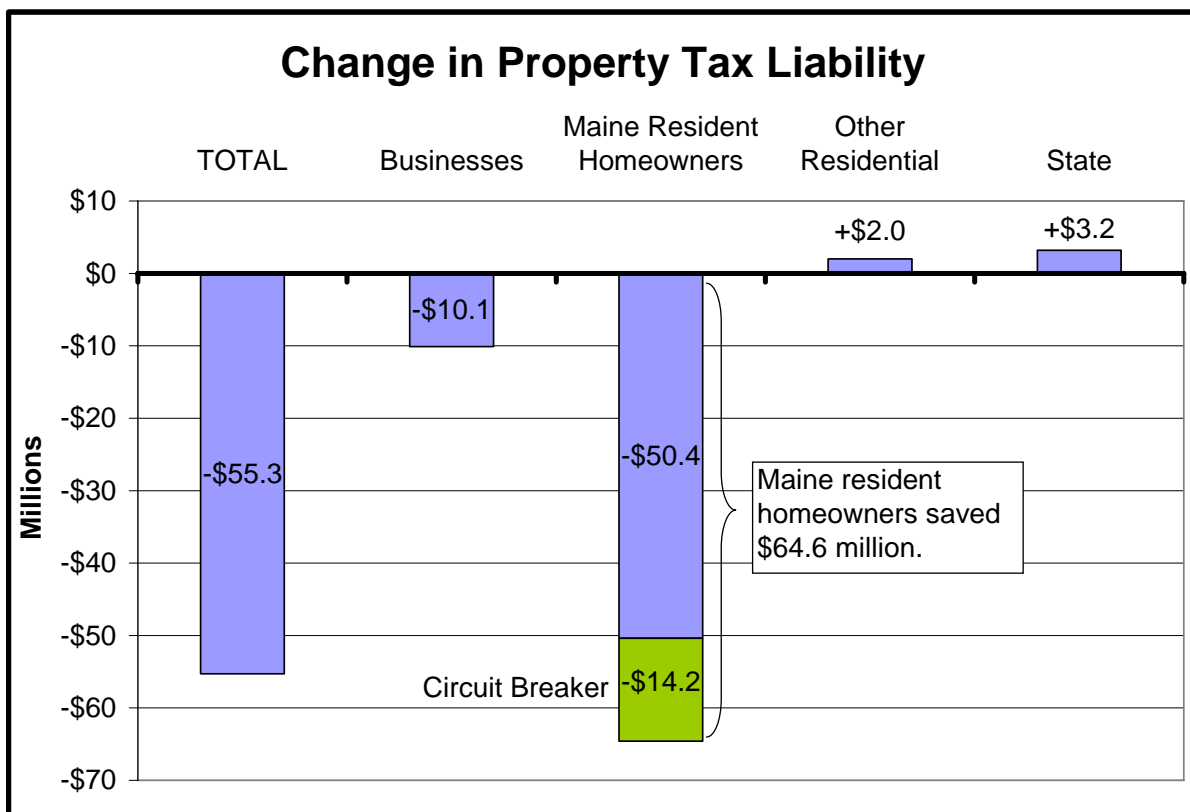


If property taxes had grown at 5.0% as forecasted, total property tax commitments would have been \$55.3 million higher than they actually were (line 1). Approximately \$10.1 million of that savings went to Maine businesses (line 2), even after accounting for any shift that may have occurred because of the expanded Homestead Exemption. The remaining \$45.1 million went to residential property owners (line 3). Within that group, Maine resident homeowners saved

\$50.4 million, while other residential property owners (non-Maine homeowners and second-home owners from Maine) paid an additional \$2 million (line 5). State government's property tax liability increased by \$3.2 million (line 6).

Maine resident homeowners received another \$14.2 million in property tax relief through the Circuit Breaker program (line 7). Refunds from that program are expected to reach \$36.2 million this year.

In total, Maine resident homeowners saved about \$65 million: \$50.4 million from the break from high property tax growth and another \$14.2 million from the Circuit Breaker. Maine businesses saved about \$10 million, even accounting for any potential shift from the expanded Homestead Exemption.



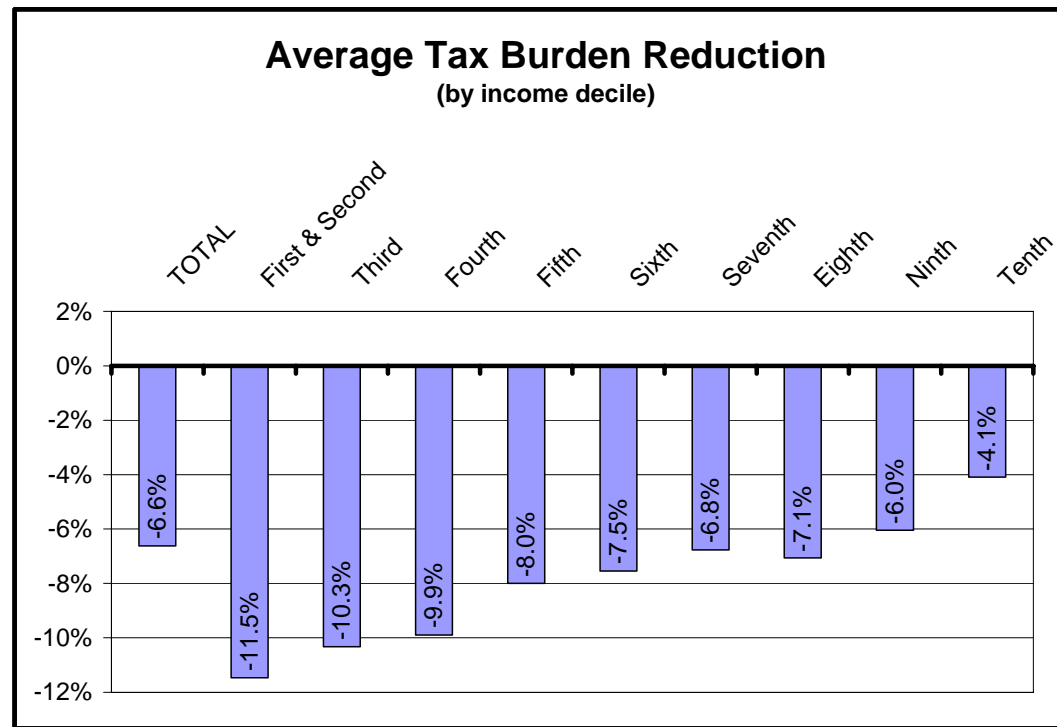
5. Maine homeowners at all income levels saved money. Low-income homeowners experienced the greatest percentage property tax burden reduction.

The table below shows the estimated average property tax payments of Maine homeowners with and without LD 1, broken down by income decile. The red columns labeled “Pre-LD 1 Estimated Property Taxes” show the property taxes that homeowners would have paid this year under the old Circuit Breaker and Homestead Exemption rules and 5.0% property tax growth. The blue columns labeled “LD 1 Estimated Property Taxes” show estimated actual property tax payments with the expanded Circuit Breaker and Homestead Exemption rules of LD 1 and 1.7% property tax growth. Tax burden is measured by average property taxes paid as a percentage of average income.

Decile	Annual Income	Number of Homeowners	Average Income	Pre-LD1 Estimated Property Taxes			LD1 Estimated Property Taxes			Average Tax Burden Reduction	
				Total (\$M)	Average	Burden	Total (\$M)	Average	Burden		
1 st & 2 nd	-\$ Infinity <= \$10,223	33,008	\$5,451	\$53.8	\$1,631	29.9%	\$47.7	\$1,444	26.5%	\$187	-11.5%
3 rd	\$10,224 <= \$15,032	22,705	\$12,673	\$35.3	\$1,554	12.3%	\$31.6	\$1,394	11.0%	\$161	-10.3%
4 th	\$15,033 <= \$20,847	30,159	\$17,844	\$51.2	\$1,699	9.5%	\$46.2	\$1,531	8.6%	\$168	-9.9%
5 th	\$20,847 <= \$27,962	35,091	\$24,384	\$64.4	\$1,835	7.5%	\$59.3	\$1,689	6.9%	\$147	-8.0%
6 th	\$27,963 <= \$36,930	38,437	\$32,460	\$80.0	\$2,082	6.4%	\$74.0	\$1,925	5.9%	\$157	-7.5%
7 th	\$36,931 <= \$49,066	46,474	\$43,016	\$104.4	\$2,246	5.2%	\$97.3	\$2,095	4.9%	\$152	-6.8%
8 th	\$49,067 <= \$65,413	55,802	\$56,898	\$138.2	\$2,476	4.4%	\$128.4	\$2,301	4.0%	\$175	-7.1%
9 th	\$65,413 <= \$92,300	61,053	\$77,407	\$173.0	\$2,834	3.7%	\$162.6	\$2,662	3.4%	\$171	-6.0%
10 th	\$92,301 <= \$Infinity	63,645	\$184,724	\$275.4	\$4,327	2.3%	\$264.1	\$4,150	2.2%	\$177	-4.1%

Total		386,372	\$64,099	\$975.8	\$2,525	3.9%	\$911.1	\$2,358	3.7%	\$167	-6.6%
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The bottom line of the table shows that Maine resident homeowners would have paid approximately \$975.8 million in property taxes without LD 1. Their actual estimated payments are \$911.1 million (about \$65 million less, as previously discussed). The average homeowner paid \$167 or 6.6% less with LD 1 than they otherwise would have paid. This amount was fairly consistent across all income deciles. However, this represents a larger percentage tax burden reduction for homeowners in the lower income deciles. The estimated property tax burden of homeowners in the first and second deciles fell from 29.9% of expanded income without LD 1 to 26.5% with LD 1, a decrease of 11.5%. By comparison, homeowners in the top income decile received an average tax burden reduction of 4.1% (from 2.3% to 2.2% of expanded income).



6. An analysis of typical Maine households demonstrates how each of the components of LD 1 reduced the net property tax paid by taxpayers residing in an average municipality. “Average municipality” means one that experienced an average decrease in property tax on Maine residents in property tax year 2005.

(see chart on next page)

**Impact of L.D. 1 on Hypothetical Maine Resident Households /1
Property Tax Year 2005 - Fiscal Year 2006**

	<u>Current Law</u>	<u>Proposed Law</u>	<u>Change</u>	<u>% Change</u>
Full Value Mill Rate /2	14.07	13.86	-0.21	-1.5%

Single Elderly Taxpayer

Household Income = \$15,903				
Value of Homestead =	\$178,344	\$178,344	\$0	0.0%
Homestead Exemption =	\$5,000	\$13,000		
<u>Taxable Value of Homestead =</u>	<u>\$173,344</u>	<u>\$165,344</u>	-\$8,000	-4.6%
Property Tax Paid =	\$2,439	\$2,292	-\$147	-6.0%
Percent of Household Income =	15.3%	14.4%		
C.L. Circuit Breaker Refund =	-\$1,000	-\$1,337	-\$337	33.7%
Net Property Tax =	\$1,439	\$954	-\$485	-33.7%
Percent of Household Income =	9.0%	6.0%		

Married Household with 2 Dependents

Household Income = \$52,592				
Value of Homestead =	\$190,520	\$190,520	\$0	0.0%
Homestead Exemption =	\$5,000	\$13,000		
<u>Taxable Value of Homestead =</u>	<u>\$185,520</u>	<u>\$177,520</u>	-\$8,000	-4.3%
Property Tax Paid =	\$2,610	\$2,460	-\$150	-5.7%
Percent of Household Income =	5.0%	4.7%		
C.L. Circuit Breaker Refund =	\$0	-\$178	-\$178	
Net Property Tax =	\$2,610	\$2,282	-\$328	-12.6%
Percent of Household Income =	5.0%	4.3%		

Married Household with 2 Dependents

Household Income = \$96,483				
Value of Homestead =	\$227,049	\$227,049	\$0	0.0%
Homestead Exemption =	\$5,000	\$13,000		
<u>Taxable Value of Homestead =</u>	<u>\$222,049</u>	<u>\$214,049</u>	-\$8,000	-3.6%
Property Tax Paid =	\$3,124	\$2,967	-\$158	-5.0%
Percent of Household Income =	3.2%	3.1%		
C.L. Circuit Breaker Refund =	\$0	\$0	\$0	
Net Property Tax =	\$3,124	\$2,967	-\$158	-5.0%
Percent of Household Income =	3.2%	3.1%		

Maine Revenue Services	6-Feb-06
Economic Research Division	2:09 PM

1/ Includes impact of additional education funding, EPS spending caps, expanded circuit breaker and \$13,000 homestead exemption with 50% reimbursement.

2/ Current law mill rate is based on MRS forecast of recent valuation and commitment changes in the municipality. LD 1 law mill rate is based on MRS forecast of recent valuation changes and town's reported commitment on 2005 MVR.